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UNCLAS SECTION 01 OF 03 AMMAN 000670

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SUBJECT: RISING PRICES REINFORCE VIEW AMONG SOME THAT AMMAN IS THE
MOST EXPENSIVE CITY IN MIDDLE EAST

Sensitive but unclassified. Not for internet distribution.

REF: A. Amman 605

- [1](#)B. Amman 573
- [1](#)C. Amman 551
- [1](#)D. Amman 518
- [1](#)E. Amman 407
- [1](#)F. Amman 26

[1](#)1. (U) SUMMARY: Amman has recently been rated as one of the most expensive cities in the Middle East by the Economist Intelligence Unit. Prices in Jordan continue to rise as a result of rising world fuel and food prices and Jordan's peg to the weakening U.S. dollar. Jordan's Consumer Price Average (CPA) was up .68 percent in January 2008 from December 2007, and is expected to continue to rise following the elimination of fuel subsidies and a long and damaging frost in the agricultural region (ref E). Real estate prices have also risen sharply over the last few years. The government has sought to ease the impact of price hikes with eight to nine percent salary increases that have not been matched by all private sector employers. The combination of quick retail price increases and some hoarding has meant that the long-term impact is unclear. The government, however, has a clear and coordinated message about the need for economic reform, belt-tightening, and efforts to minimize the impact on the neediest. End Summary.

Most Expensive City in Middle East... or One of Them

[1](#)2. (U) In 2007, the Economist Intelligence Unit in its survey of 128 countries reported that Amman is the most expensive city in the Middle East and ranked 72 worldwide. This ranking put it ahead of Dubai (79), Casablanca (79-tied) and Abu Dhabi (85). The survey is quoted frequently in Amman, although other surveys by the Financial Times and other business magazines have ranked Amman lower, behind Dubai, Abu Dhabi, Tel Aviv, and Beirut. A February 15 editorial in an English-language daily suggested that Jordan is more expensive than other countries because of high sales and utility taxes. Some Jordanian officials have blamed the high cost of living in Jordan on Iraqi refugees; the end of discounted Iraqi fuel in 2003; and a lack of generosity from Gulf neighbors who underestimate Jordan's contribution to their security (ref A). A February 25 New York

Times article further raised awareness of inflation in Jordan and the region.

World Prices, Dollar Peg Hurt Import-Heavy Jordan

13. (U) Jordan imports the majority of its goods and consumable items, and has been hard-hit by global increases in food and fuel prices. A February 2008 study by a local economic analysis company, First Strategieh Consulting, explained Jordan's inflation was a function of increases in price- and income-inelastic commodities and services, particularly food and fuel. Jordan has been further impacted by its peg to the dollar (1 Jordanian dinar = \$1.41). This peg affects buying power since Jordan imports far more goods from Europe than from the U.S. (ref C). Rania Aklouk, administrative manager at a major local importer of mechanical tools, said that the falling dinar has resulted in her customers buying cheaper Chinese products instead of European equipment. Additionally, the Chinese currency is also pegged to the U.S. dollar, so there are no price fluctuations for Jordanian customers.

14. (U) The Department of Statistics issued its monthly Consumer Price Average (CPA) on February 10 and reported a .68 percent increase from December 2007 to January 2008, led by a 5 percent increase in vegetables and 3 percent increase in beans. The CPA is up 5.7 percent from January 2007, with the largest increases in dairy (26 percent), beans (25 percent), and cereal (20 percent). A two-week frost in late January and early February destroyed 50 percent of Jordan Valley produce and will also raise prices (ref D). The January increases do not yet reflect the significant fuel price increases which followed the lifting of fuel subsidies in February (ref A). Prices for bottled heating fuel will not be liberalized

AMMAN 00000670 002 OF 003

until April. The March CPA will begin to reflect these rising fuel and produce prices, and will likely increase again.

Rising Real Estate and Rents

15. (SBU) The January 2008 edition of the online Global Property Guide reported that 120 square meter (1,291 square feet) apartments in Amman cost an average of \$151,000 to buy, and rent for \$1,213 per month. According to the guide, these purchase prices and rents are higher than nearby Beirut and much higher than Cairo, but significantly lower than Dubai where comparable apartments reportedly cost \$490,000 and monthly rents are \$3140. The guide noted that Jordan's 15.4 percent real estate transaction costs, including sales costs, agent's fees, legal fees and registration, are the highest in the region. Sameer Jaber, a consultant who owns multiple rental properties in Amman said that condominiums that cost him \$80,000 five to seven years ago now cost \$250,000.

16. (U) A September 2007 real estate sector analysis by Capital Investments reported land prices in Amman had doubled between 2004 and 2006. The report noted the cheapest apartments for sale in Amman rose from \$36 per square foot in 2004 to \$52 per square foot in 2007, an increase of 45 percent. The report said that rising land and housing prices are a function of population growth (including the influx of Iraqis); Gulf liquidity, regional instability (which makes Jordan more attractive as an investment); reform in the mortgage market; an investment promotion law which helps commercial projects; and a 2010 tenants' law deadline which will end rent control for the 50 percent of Jordanians who are renters.

Government Takes Action with a Limited Budget

17. (U) The Government of Jordan is well aware of the pain of rising prices, and has sought to lessen the impact by providing civil service pay raises which will cost \$175 million, adding funds for a social safety net, lowering taxes on food commodities, and supporting parallel markets (refs E and F) to allow producers to sell directly to the poorest consumers at lower costs. The government-run grocery store network, the Civil Service Consumer

Corporation, has also announced it will limit price increases in 2008, and has purchased large vehicles to provide mobile outlets to remote areas. King Abdullah has also dubbed 2008 "The Year of Housing," and the government plans to construct 200,000 homes for needy Jordanians over the next five to ten years priced between \$28,000 and \$42,000 with a \$141 monthly mortgage. In 2007, the Overseas Private Investment Corporation (OPIC) invested \$60 million in an International Housing Sector Fund to support affordable housing, and is considering a second project to provide mortgage financing for public sector employees (Ref B).

Organizations Vary in Their Ability to Raise Salaries

18. (SBU) Business owners and non-governmental employers express frustration over what they perceived as very generous government raises which resulted in their own employees expecting similar eight to nine percent raises. One leading NGO director regretted that she did not have the budget for such generous raises but was able to raise the daily transportation allowance. Some Qualifying Industrial Zone (QIZ) factories began offering monthly food allowances of approximately \$11 for Jordanian workers. After its employees staged a four-hour sit-in on February 24, United Nations Relief and Works Agency (UNRWA) provided salary increases that matched the government's - \$63 for employees earning more than \$420 monthly and \$70 for employees earning less. Mazen Saba, Country Operations Manager for DHL-Jordan, explained Jordan has a very price-sensitive labor market, with skilled employees moving quickly and easily to positions with a higher salary. He asserted that short-term donor contracts have been especially damaging to the price of labor since employees expect the same salary on an annual basis as they received from a three-month development project.

AMMAN 00000670 003 OF 003

Raising Prices, Changing Operations and Lowering Profits

19. (SBU) Marwan Hejazen, Country Commercial Officer at DHL-Jordan, told econoffs that business owners are blaming fuel prices for the follow-on rise in the price of their products, but some retail price increases have in fact been much higher than fuel price increases. He accused business owners of taking advantage of an opportunity to raise profit margins. Further evidence of quickly changing prices can be seen in the stickers which are now cropping up on Amman restaurant menus to cover regularly-changing prices.

110. (SBU) Faraj Baseel, Country Manager of Aramex, a regional transportation company headquartered in Jordan, said his firm is seeking to switch from cars to scooters for some intra-Amman deliveries to reduce fuel costs. He noted he has had to offer scooter drivers higher wages than car drivers because Jordanians are not yet used to scooters, which only became legal a year ago and are perceived as riskier. The Ministry of Transportation (MoT) announced 23 percent higher tariffs for taxis and other transportation services.

111. (SBU) Ahmed Al Bashiti, Director of Jordan In-bound Tour Operators Association, complained that all tourism related businesses have been raising prices - tour guides, hotels and especially buses, which have already risen 20 percent. He explained that because tours are priced and booked one year in advance, tour operators will sell out in 2008 and will not make any money. Abeer Ziadeh, an analyst at Capital Investments, agreed that Jordan is a more expensive destination than other options in the region. Bashiti predicted that 2009 tours will have large price increases to recoup losses from increases in salaries and operations in 2008. Hotel owners were quoted in Arabic-language dailies that their costs of operations have sky-rocketed with 40 percent increases in electricity, 26 percent for water, and 200 percent for gas, as well as staff salary increases.

112. (SBU) COMMENT: Rising prices and the state of the economy are the dominant topic of conversation across Jordan. With projected 10 percent inflation for 2008 and continuing oil price increases, the price hikes and the complaints may be only a hint of what is likely

to come. Post does not yet have a realistic picture of the long-term impact of fuel increases since many consumers stocked up on fuel before the changes went into effect, and may not actually feel the effects on their pocketbook until later. People also wildly overestimated price increases and shop owners were quick to raise prices, so any further increases may be limited, causing the pendulum to eventually swing back and stabilize. The security-minded government is certainly sensitive to the impact of rising prices on citizens and has not forgotten the violent protests in 1996 after the government more than doubled the price of bread. Likewise, the government has had a clear and coordinated message about the need for economic reform, belt-tightening, and GOJ efforts to minimize the impact of price hikes on the neediest, an approach which may have led to the recent resignation of outspoken Central Bank Deputy Governor Faris Sharaf who told the press Jordan had "a runaway budget" and accused Jordanians of living beyond their means.

END COMMENT.

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<http://www.state.sgov.gov/p/nea/amman>

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